

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Erie Township	County Monroe
Fiscal Year End June 30, 2006	Opinion Date August 3, 2006	Date Audit Report Submitted to State October 9, 2006	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

	YES	NO	Check each applicable box below. (See instructions for further detail.)
1	<input checked="" type="checkbox"/>	<input type="checkbox"/>	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2	<input type="checkbox"/>	<input checked="" type="checkbox"/>	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has adopted a budget for all required funds.
5	<input checked="" type="checkbox"/>	<input type="checkbox"/>	A public hearing on the budget was held in accordance with State statute.
6	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit only holds deposits/investments that comply with statutory requirements.
9	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin).
10	<input checked="" type="checkbox"/>	<input type="checkbox"/>	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11	<input type="checkbox"/>	<input checked="" type="checkbox"/>	The local unit is free of repeated comments from previous years.
12	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The audit opinion is UNQUALIFIED.
13	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14	<input type="checkbox"/>	<input checked="" type="checkbox"/>	The board or council approves all invoices prior to payment as required by charter or statute.
15	<input checked="" type="checkbox"/>	<input type="checkbox"/>	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of comments and recommendations.		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Account (Firm Name) McGuire & McDole CPAs			Telephone Number 734-854-5044	
Street Address 6588 Secor Road			City Lambertville	State MI
			Zip 48144	
Authorizing CPA Signature 			Printed Name Donavon McGuire	
			License Number 1101008386	

McGuire & McDole
Certified Public Accountants

L. Donavon McGuire, CPA
Mark McDole, CPA

6588 Secor Road
Lambertville, MI 48144
734-854-5044

October 4, 2006

Erie Township Board
Erie, MI

Dear Board Members,

Our audit of the financial statements of Erie Township for the year ended June 30, 2006, was made in accordance with the generally accepted auditing standards which require that we determine that existing internal controls, accounting procedures and accounting records are adequate to allow us to express an opinion on the financial statements of the Township. The scope of our audit is not intended to be a detailed review of all systems and procedures; therefore, this report should not be considered all inclusive.

We have the following comments:

Excess Expenditures – At year end the Township had one expenditure in excess of adjusted budget amount. All expenditures should be within the amount appropriated. During the year expenditures were in excess of budget. All budget amendments must be made prior to the expenditure and all bills must be approved prior to payment.

Escrow Accounts - Some escrow accounts have debit balances, sufficient deposits should be received prior to expending monies for these projects. Professional fees collected for project reviews have not been charged with the related expenses, indicating that these monies were paid from other funds. This should be reviewed and the expenses properly allocated.

Interest Income – Township and other interest earned in the Tax and Agency accounts have not been transferred to the appropriate governments. All interest transfers should be made at least annually.

Subsidiary Ledgers – Subsidiary ledgers for special assessments, tap ins and block grants were not updated and adequately maintained through the year. All entries to these ledgers should be posted and the detail totals balanced to the control accounts.

Receipts – The Township utilizes a cash receipting system integrated with the general ledger. All receipts were not recorded using this system. All monies must be receipted including interest and tax receipts. Insufficient detail is not recorded in the receipting system, specifically special assessment payments, the receipt should include the property number.

Cash Balances – The Township maintains a common bank account for several of its accounting funds. Some of these funds have negative cash checking amounts which results in unauthorized interfund lending. All accounting funds must maintain positive cash checking balances.

Misclassifications – There were several misclassifications in the revenue accounts. Due care should be taken in classifying revenues.

Cash Balances – Checking account balances are in excess of operating needs. Excess cash should be invested to provide additional investment income.

Prior Year Comments

Allocation of Insurance Expense – No allocation of liability or property insurance has been made to the Law Enforcement Fund. All police expenses should be incorporated into this budget including workers compensation and liability insurances. This is necessary to ascertain the total costs of operating the department.

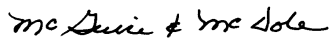
Interfund Payables – There are interfund liabilities that have existed for several years. These liabilities should be repaid.

Other Matters

Budget Hearing – The Township did not hold a public hearing prior to adopting for the 2006-07 budget. A public hearing is required prior to adoption of the annual budget.

We would like to take this opportunity to thank both the Board Officials and the employees who provided assistance to us during our audit. If you have any questions regarding any of the suggestions noted above or would like assistance in their implementation, please contact us.

Sincerely,

A handwritten signature in cursive script, appearing to read "McGuire & McDole", written in black ink.

McGuire & McDole
Certified Public Accountants

ERIE TOWNSHIP

Monroe County, Michigan

FINANCIAL STATEMENTS

For The Year Ended June 30, 2006

ERIE TOWNSHIP

TOWNSHIP OFFICIALS

SUPERVISOR -----Daniel J. Bonkoski

CLERK ----- Gayle A. Burlen

TREASURER -----Denine M. Kamprath

TOWNSHIP BOARD

Daniel J. Bonkoski
Gayle A. Burlen
Denine M. Kamprath
Denise Gordy
Tad J. Cousino

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INDEPENDENT AUDITOR'S REPORT

Township Board of Erie Township
2060 Manhattan
Erie, MI 48133

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Township of Erie, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Erie Township, Michigan as of June 30, 2006, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion in it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Erie's basic financial statements. The required supplementary budgetary comparisons, and additional combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary budgetary comparisons and combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGuire & McDole

McGuire & McDole
Certified Public Accountants

August 3, 2006

Erie Township
Management's Discussion and Analysis
June 30, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 8% from a year ago – increasing from 8,844.2 thousand to 9,535.7 thousand. As we look at the governmental activities separately from the business-type activities, we can see the governmental activities experienced an increase, of approximately \$147 thousand during the year (3% increase). The business-type activities experienced a \$544 thousand increase in net assets, primarily as a result of an increase in new assessments. In a condensed format, the table below shows a comparison (in thousands of dollars) of the net assets as of the current date to the prior year:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current Assets	\$ 2,791.9	\$ 2,824.0	\$ 3,927.1	\$ 2,794.2	\$ 6,719.0	\$ 5,618.2
Noncurrent Assets	3,257.6	3,160.4	4,751.7	4,779.7	8,009.3	7,940.1
Total Assets	<u>6,049.5</u>	<u>5,984.4</u>	<u>8,678.8</u>	<u>7,573.9</u>	<u>14,728.3</u>	<u>13,558.3</u>
Long-Term Debt Outstanding	1,299.2	1,444.5	3,340.0	2,820.0	4,639.2	4,264.5
Other Liabilities	199.1	135.8	354.2	313.8	553.3	449.6
Total Liabilities	<u>1,498.3</u>	<u>1,580.3</u>	<u>3,694.2</u>	<u>3,133.8</u>	<u>5,192.5</u>	<u>4,714.1</u>
Net Assets						
Invested in Capital Assets-						
Net of Debt	2,850.7	2,664.9	1,116.7	1,699.7	3,967.4	4,364.6
Restricted	3.0	3.0	70.4	64.7	73.4	67.7
Unrestricted (Deficit)	<u>1,697.4</u>	<u>1,736.2</u>	<u>3,797.5</u>	<u>2,675.7</u>	<u>5,494.9</u>	<u>4,411.9</u>
Total Net Assets	<u>\$ 4,551.1</u>	<u>\$ 4,404.1</u>	<u>\$ 4,984.6</u>	<u>\$ 4,440.1</u>	<u>\$ 9,535.7</u>	<u>\$ 8,844.2</u>

Unrestricted net assets--the part of net assets that can be used to finance day to day operations, decreased by \$38,000 for the governmental activities. This represents an increase of approximately 2%. The current level of unrestricted net assets for our governmental activities stands at \$1,697,000, or about 104% of expenditures.

Erie Township
Management's Discussion and Analysis
June 30, 2006

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program Revenues						
Charges for Services	\$ 45.6	\$ 42.4	\$ 76.2	\$ 72.2	\$ 121.8	\$ 114.6
Operating Grants and Contributions	2.5	71.1	-	-	2.5	71.1
Capital Grants and Contributions			722.7	28.0	722.7	28.0
General Revenues						
Property Taxes	356.8	337.6			356.8	337.6
State-Shared Revenues	339.8	342.2			339.8	342.2
Franchise Fees and Permits	742.0	872.8			742.0	872.8
Unrestricted Investment Earnings	81.9	47.6	128.8	129.5	210.7	177.1
Transfers and Other Revenue	205.6	387.4			-	
	<u>205.6</u>	<u>387.4</u>			<u>205.6</u>	<u>387.4</u>
	<u>1,774.2</u>	<u>2,101.1</u>	<u>927.7</u>	<u>229.7</u>	<u>2,701.9</u>	<u>2,330.8</u>
Program Expenses						
General Government	517.0	550.7	-	-	517.0	550.7
Public Safety	806.1	844.5	-	-	806.1	844.5
Highways and Streets	189.6	199.5	-	-	189.6	199.5
Recreation and Culture	52.3	65.8	-	-	52.3	65.8
Interest on Long-Term Debt	62.2	30.8	-	-	62.2	30.8
Water and Sewer	-	-	383.2	381.1	383.2	381.1
	<u>-</u>	<u>-</u>	<u>383.2</u>	<u>381.1</u>	<u>383.2</u>	<u>381.1</u>
Total Expenses	<u>1,627.2</u>	<u>1,691.3</u>	<u>383.2</u>	<u>381.1</u>	<u>2,010.4</u>	<u>2,072.4</u>
Change in Net Assets	<u>\$ 147.0</u>	<u>\$ 409.8</u>	<u>\$ 544.5</u>	<u>\$ (151.4)</u>	<u>\$ 691.5</u>	<u>\$ 258.4</u>

The Township's net assets continue to remain healthy. The total revenues increased due to assessment and other revenue while total expenses increased by 3%. As a result, net assets grew by \$433,100, compared to a prior year increase of \$258,400.

Governmental Activities

The Township's total governmental revenues decreased by approximately \$326,900, primarily due to the decreased landfill fees and other revenues.

Expenses decreased by \$64,100 during the year. This was primarily the result of decreased overall expenses.

Business-Type Activities

The Township's business-type activities consist of the Water and Sewer Fund. Water is provided through the South County Water System. The Township's water activity accounts for local line extensions and connection fees. We provide sewage treatment to approximately five entities through the Bedford Township sewage treatment plant.

The Township's Funds

Our analysis of the Township's major funds begins on page 7, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005-06 include the General Fund, the Law Enforcement Fund, and the Public and Private Improvement Fund.

The General Fund pays for most of the Township's governmental services and fire protection operations, which incurred expenses of approximately \$164,000 in 2005-06. Fire equipment purchases and related debt are funded through a special millage recorded in the Fire Equipment Fund. Police services are also funded by a special millage recorded in the Law Enforcement Fund.

General Fund Budgetary Highlights

During the fiscal period 2005-06, the Township Board amended the budget to reflect changes which took place during the year. The most significant change in revenue was a \$36,600 increase in fund balance. Additionally there were a few minor changes resulting in an overall budget increase of \$36,599.

The expenditure budget reflects total expenditures of \$177,689 less than anticipated. All departments except one were within budget allocation.

Capital Asset and Debt Administration

At June 30, 2006, the Township had \$8,009,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Monroe County Road Commission (along with the responsibility to maintain them).

The Township issued \$815,000 of water bonds through the Monroe County Drain Commission with a final maturity date of 2021. The proceeds will be used to expand water lines within the Township.

Economic Factors and Next Year's Budgets and Rates

State shared revenue will likely remain flat next year, with little or no increase. The Lost Peninsula Marina Project is somewhat stalled, negotiating a water supply agreement with the City of Toledo to expand, repair and replace an existing 6" water line to a 12" line enabling the developer sufficient capacity for the proposed development.

U.S. Rail remains a threat to the Township Ad Valorem tax base, as railroads do not pay property taxes. The Township is in the process of filing an injunction with the Monroe County Circuit Court, to prevent the railroad from using the term "Eminent Domain" in any negotiation with the land owners as the Township does not feel that U.S. Rail is a railroad as defined by the Interstate Commerce Commission Termination Act of 1995.

Overall, all these should be a modest increase in the Township State Equalized Value.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

ERIE TOWNSHIP
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		
	<i>Governmental Activities</i>	<i>Business - Type Activities</i>	<i>Total</i>
Assets			
Cash and Cash Equivalents	\$ 1,828,681	\$ 837,811	\$ 2,666,492
Investments	-	-	-
Receivables (Net of Allowance for Uncollectibles):			
Accounts	-	19,216	19,216
Assessments	5,140	2,183,605	2,188,745
Tap-Ins	-	74,559	74,559
Loans	83,766	-	83,766
Interest	-	-	-
Due From State of Michigan	111,968	-	111,968
Internal Balances	(10,463)	10,463	-
Prepaid Expenses	10,400	-	10,400
Restricted Cash With Fiscal Agent	762,397	801,463	1,563,860
	<u>2,791,889</u>	<u>3,927,117</u>	<u>6,719,006</u>
Capital Assets:			
Construction in Progress	228,834	-	228,834
Land	124,685	-	124,685
Buildings and System	1,986,966	5,660,175	7,647,141
Improvements Other than Buildings	169,754	-	169,754
Machinery and Equipment	2,208,549	-	2,208,549
Less Accumulated Depreciation	(1,461,207)	(908,483)	(2,369,690)
Total Capital Assets (Net of Accumulated Depreciation)	<u>3,257,581</u>	<u>4,751,692</u>	<u>8,009,273</u>
Total Assets	<u>6,049,470</u>	<u>8,678,809</u>	<u>14,728,279</u>
Liabilities			
Accounts Payable	6,278	17,469	23,747
Accrued Wages	16,024	-	16,024
Accrued Vacation	11,495	-	11,495
Accrued Payroll Taxes	1,753	-	1,753
Accrued Interest Payable	23,007	41,747	64,754
Noncurrent Liabilities:			
Due Within One Year	140,552	295,000	435,552
Due in More Than One Year	1,299,221	3,340,000	4,639,221
Total Liabilities	<u>1,498,330</u>	<u>3,694,216</u>	<u>5,192,546</u>
Net Assets			
Invested in Capital Assets Net of Related Debt	2,850,708	1,116,692	3,967,400
Restricted for:			
Veteran's Memorial	3,019	-	3,019
Repair and Maintenance	-	70,429	70,429
Unrestricted	1,697,413	3,797,472	5,494,885
Total Net Assets	<u>\$ 4,551,140</u>	<u>\$ 4,984,593</u>	<u>\$ 9,535,733</u>

See Accompanying Notes to the Financial Statements.

ERIE TOWNSHIP

**GOVERNMENT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 517,013	\$ 45,635	\$ -	\$ -	\$ (471,378)	\$ -	\$ (471,378)
Public Safety	806,059	-	2,462	-	(803,597)	-	(803,597)
Highways and Streets	189,567	-	-	-	(189,567)	-	(189,567)
Culture and Recreation	52,310	-	-	-	(52,310)	-	(52,310)
Interest on Long-Term Debt	62,271	-	-	-	(62,271)	-	(62,271)
Total Governmental Activities	1,627,220	45,635	2,462	-	(1,579,123)	-	(1,579,123)
Business-Type Activities:							
Water and Sewer	383,174	76,180	-	722,665		415,671	415,671
Total Primary Government	<u>\$ 2,010,394</u>	<u>\$ 121,815</u>	<u>\$ 2,462</u>	<u>\$ 722,665</u>	<u>(1,579,123)</u>	<u>415,671</u>	<u>(1,163,452)</u>
General Revenues:							
Property Taxes					356,819	-	356,819
State Shared Revenues					339,777	-	339,777
Franchise Fees and Permits					741,996	-	741,996
Unrestricted Investment Earnings					81,925	128,805	210,730
Miscellaneous					205,603	-	205,603
Transfers					-	-	-
Total General Revenues and Transfers					1,726,120	128,805	1,854,925
Change in Net Assets					146,997	544,476	691,473
Net Assets - Beginning					4,404,143	4,440,117	8,844,260
Net Assets - Ending					<u>\$ 4,551,140</u>	<u>\$ 4,984,593</u>	<u>\$ 9,535,733</u>

ERIE TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

<i>Assets</i>	<i>General</i>	<i>Law Enforcement</i>	<i>Public and Private Improvement</i>	<i>Other Governmental Funds</i>	<i>Total Governmental Funds</i>
Cash and Cash Equivalents	\$ 30,382	\$ 56,860	\$ 1,632,690	\$ 108,749	\$ 1,828,681
Investments	-	-	-	-	-
Assessments Receivable	-	-	5,140	-	5,140
Loans Receivable	-	-	83,766	-	83,766
Interest Receivable	-	-	-	-	-
Prepaid Expenses	10,400	-	-	-	10,400
Due From State of Michigan	111,968	-	-	-	111,968
Due From Other Funds	41,687	-	-	1,751	43,438
Restricted Cash With Fiscal Agent	-	-	762,397	-	762,397
Total Assets	\$ 194,437	\$ 56,860	\$ 2,483,993	\$ 110,500	\$ 2,845,790
<i>Liabilities and Fund Balances</i>					
Liabilities:					
Accounts Payable	\$ 4,533	\$ 1,246	\$ -	\$ 499	\$ 6,278
Accrued Wages	7,854	8,170	-	-	16,024
Accrued Payroll Taxes	1,753	-	-	-	1,753
Due to Other Funds	1,756	41,668	10,477	-	53,901
Deferred Revenue	-	-	88,906	-	88,906
Total Liabilities	15,896	51,084	99,383	499	166,862
Fund Balances:					
Reserved for:					
Veteran's Memorial	3,019	-	-	-	3,019
Unreserved, reported in:					
General Fund	175,522	-	-	-	175,522
Special Revenue Funds	-	5,776	2,384,610	110,001	2,500,387
Total Fund Balances	178,541	5,776	2,384,610	110,001	2,678,928
Total Liabilities and Fund Balances	\$ 194,437	\$ 56,860	\$ 2,483,993	\$ 110,500	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 3,257,581

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 88,906

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (1,474,275)

Net Assets of Governmental Activities \$ 4,551,140

See Accompanying Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	General	Law Enforcement	Public and Private Improvement	Other Governmental Funds	Totals Governmental Funds
Revenues:					
Taxes and Penalties	\$ 100,870	\$ 113,746	\$ -	\$ 142,203	\$ 356,819
Licenses and Permits	113,819	5,060	578,577	44,540	741,996
State Grants	339,777	-	-	-	339,777
Federal Grants	1,176	1,286	-	-	2,462
Charges for Services	45,635	-	-	-	45,635
Fines and Forfeits	3,132	141,470	-	-	144,602
Interest	4,084	1,908	73,175	2,758	81,925
Other	29,058	27,586	9,840	-	66,484
Total Revenues	<u>637,551</u>	<u>291,056</u>	<u>661,592</u>	<u>189,501</u>	<u>1,779,700</u>
Expenditures:					
Current:					
General Government	484,145	-	30,473	-	514,618
Public Safety	164,193	484,124	-	59,068	707,385
Highways and Streets	26,836	-	391,565	-	418,401
Recreational and Cultural	38,686	-	-	-	38,686
Debt Service:					
Principal	-	-	-	88,658	88,658
Interest and Fiscal Charges	-	-	23,851	27,569	51,420
Total Expenditures	<u>713,860</u>	<u>484,124</u>	<u>445,889</u>	<u>175,295</u>	<u>1,819,168</u>
Excess of Revenue Over (Under) Expenditures	<u>(76,309)</u>	<u>(193,068)</u>	<u>215,703</u>	<u>14,206</u>	<u>(39,468)</u>
Other Financing Sources (Uses):					
Bond Proceeds	-	-	-	-	-
Operating Transfers In	-	150,000	-	12,000	162,000
Operating Transfers Out	-	-	(162,000)	-	(162,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>150,000</u>	<u>(162,000)</u>	<u>12,000</u>	<u>-</u>
Excess of Revenue & Other Financing Sources Over Expenditures & Other Financing Uses	<u>(76,309)</u>	<u>(43,068)</u>	<u>53,703</u>	<u>26,206</u>	<u>(39,468)</u>
Fund Balance - Beginning	<u>254,850</u>	<u>48,844</u>	<u>2,330,907</u>	<u>83,795</u>	
Fund Balance - Ending	<u>\$ 178,541</u>	<u>\$ 5,776</u>	<u>\$ 2,384,610</u>	<u>\$ 110,001</u>	

Amounts reported for governmental activities in the statement of activities are different because:

-Governmental funds report capital outlays as expenditures; in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

97,177

-Special assessment and similar revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

8,092

-Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

88,658

-Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

(7,462)

Change in Net Assets of Governmental Activities\$ 146,997

See Accompanying Notes to the Financial Statements.

ERIE TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUND STATEMENT OF NET ASSETS
JUNE 30, 2006

	<i>Water and Sewer</i>	
	<i>Current Year</i>	<i>Prior Year</i>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 837,811	\$ 747,775
Investments	-	259,014
Due From Other Funds	10,463	10,463
Current Portion - Tap-Ins Receivable	9,000	9,481
Current Portion - Assessments Receivable	140,000	139,868
Accounts Receivable	19,216	14,886
Total Current Assets	<u>1,016,490</u>	<u>1,181,487</u>
Noncurrent Assets:		
Restricted Cash	801,463	1,051
Long-Term Portion of Tap-Ins Receivable	65,559	85,328
Long-Term Portion of Assessments Receivable	2,043,605	1,526,353
Capital Assets	5,660,175	5,507,078
Less Accumulated Depreciation	<u>(908,483)</u>	<u>(727,340)</u>
Total Noncurrent Assets	<u>7,662,319</u>	<u>6,392,470</u>
Total Assets	<u>8,678,809</u>	<u>7,573,957</u>
Liabilities		
Current Liabilities:		
Accounts Payable	17,469	12,094
Accrued Interest Payable	41,747	41,747
Current Portion of Noncurrent Liabilities	<u>295,000</u>	<u>260,000</u>
	<u>354,216</u>	<u>313,841</u>
Non-current Liabilities:		
Bonds Payable	<u>3,340,000</u>	<u>2,820,000</u>
Total Liabilities	<u>3,694,216</u>	<u>3,133,841</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,116,692	1,699,738
Restricted For Repair and Maintenance	70,429	64,671
Unrestricted	<u>3,797,472</u>	<u>2,675,708</u>
Total Net Assets	<u>\$ 4,984,593</u>	<u>\$ 4,440,117</u>

See Accompanying Notes to the Financial Statements.

ERIE TOWNSHIP

**PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

	<i>Water and Sewer</i>	
	<u>Current Year</u>	<u>Prior Year</u>
Operating Revenue:		
Charges for Service - Sewers	\$ 63,345	\$ 50,002
Tap Fees	12,800	21,905
Other Revenue	<u>35</u>	<u>289</u>
Total Operating Revenue	<u>76,180</u>	<u>72,196</u>
Operating Expenses:		
Depreciation	181,143	181,143
Sewer Usage	57,586	45,451
Other	<u>500</u>	<u>-</u>
Total Operating Expenses	<u>239,229</u>	<u>226,594</u>
Operating Income (Loss)	(163,049)	(154,398)
Non-Operating Revenue (Expenses):		
Assessment Revenue	722,665	28,000
Interest Income	128,805	129,504
Interest Expense	<u>(143,945)</u>	<u>(154,515)</u>
Total Non-Operating Revenue (Expenses)	<u>707,525</u>	<u>2,989</u>
Change in Net Assets	544,476	(151,409)
Total Net Assets - Beginning	<u>4,440,117</u>	<u>4,591,526</u>
Total Net Assets - Ending	<u><u>\$ 4,984,593</u></u>	<u><u>\$ 4,440,117</u></u>

See Accompanying Notes to the Financial Statements.

PROPRIETARY FUND STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	<i>Water and Sewer</i>	
	<u>Current Year</u>	<u>Prior Year</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 91,600	\$ 87,028
Payments to suppliers	(52,211)	(45,226)
Net Cash Provided by Operating Activities	<u>39,389</u>	<u>41,802</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Assessment Collections	205,282	200,780
Proceeds from Bonds	815,000	-
Principal Paid on Bonds	(260,000)	(250,000)
Interest Paid on Debt	(143,945)	(154,515)
Purchase of Fixed Assets	(153,097)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>463,240</u>	<u>(203,735)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase) Sale of Investments	259,014	298,914
Interest Revenue	128,805	129,504
Net Cash Provided (Used) by Investing Activities	<u>387,819</u>	<u>428,418</u>
Net Increase (Decrease) In Cash and Cash Equivalents	890,448	266,485
Cash and Cash Equivalents - Beginning	<u>748,826</u>	<u>482,341</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,639,274</u>	<u>\$ 748,826</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income	\$ (163,049)	\$ (154,398)
Depreciation	181,143	181,143
(Increase) Decrease in Assets and Increase (Decrease) in Liabilities:		
Due From Other Funds	-	-
Taps Receivable	20,250	12,786
Accounts Receivable	(4,330)	2,046
Accounts Payable	5,375	225
Net Cash Provided by Operating Activities	<u>\$ 39,389</u>	<u>\$ 41,802</u>

See Accompanying Notes to the Financial Statements.

ERIE TOWNSHIP
FIDUCIARY FUND -- STATEMENT OF NET ASSETS
JUNE 30, 2006

	<i>Pension Trust Fund</i>	<i>Agency Fund Type (Property Tax Collection Fund)</i>
Assets		
Cash and Cash Equivalents	\$ -	\$ 5,905
Investments at Fair Value:		
Mutual Funds	<u>194,780</u>	<u>-</u>
Total Assets	194,780	<u><u>\$ 5,905</u></u>
Liabilities		
Due to Others	<u>-</u>	<u><u>\$ 5,905</u></u>
Total Liabilities		
Net Assets		
Held in Trust for Pension Benefits	<u><u>\$ 194,780</u></u>	

See Accompanying Notes to the Financial Statements.

ERIE TOWNSHIP
FIDUCIARY FUND STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	<i>Pension Trust Fund</i>
Additions:	
Contributions	
Employer	\$ 42,699
Plan Members	<u>19,335</u>
Total Contributions	62,034
Investment Income	
Net Appreciation (Depreciation) in Fair Value of Investments	<u>32,965</u>
Total Additions	<u>94,999</u>
Deductions:	
Participant Withdrawals	514,136
Administration Fees	<u>2,990</u>
Total Deductions	<u>517,126</u>
Net Change in Net Assets	(422,127)
Net Assets - Beginning	<u>616,907</u>
Net Assets - Ending	<u><u>\$ 194,780</u></u>

See Accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - *Summary of Significant Accounting Policies*

NOTE 2 - *Reconciliation of Government-Wide and Fund Financial Statements*

NOTE 3 - *Stewardship, Compliance and Accountability*

NOTE 4 - *Deposits and Investments*

NOTE 5 - *Receivables*

NOTE 6 - *Capital Assets*

NOTE 7 - *Interfund Receivables, Payables and Transfers*

NOTE 8 - *Leases*

NOTE 9 - *Long-term Debt*

NOTE 10 - *Restricted Assets*

NOTE 11 - *Risk Management*

NOTE 12 - *Other Post-Employment Benefits*

NOTE 13 - *Employee Retirement Plan*

NOTE 14 - *Pending Litigation*

NOTE 15 - *Deferred Compensation Plan*

NOTE 16 - *Monroe County Joint Powers Water Contracts (South County Water System)*

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Erie Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Erie Township:

A - Reporting Entity

The Local Governmental Unit is governed by an elected five member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Erie Township has no component units.

B - Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C - Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered available only when cash is received by the government.

Erie Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Erie Township as of the preceding December 31st. Although Erie Township 2005 ad valorem tax is levied and collectible on December 1, 2005, it is Erie Township's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days). The 2005 taxable valuation of Erie Township totaled \$118.3 million, on which ad valorem taxes levied consisted of .8168 mills for Erie Township operating purposes, .9546 mills for police protection, .11934 mills for fire equipment, raising \$96,869 for operating, \$113,214 for police protection, and \$141,538 for fire equipment. These amounts are recognized in the respective General and Special Revenue Fund financial statements as taxes receivable - current or as tax revenue.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Law Enforcement Fund accounts for all police protection expenses and related tax revenue.

The Public and Private Improvement Fund accounts for landfill revenues and block grant loans.

The government reports the following major proprietary funds:

The Water and Sewer Fund accounts for the tap-ins, special assessments, construction and related debt of the water distribution system and the sewage collection system.

Additionally, the government reports the following fund types:

The pension trust fund accounts for the activities of the township employees retirement system which accumulates resources for pension benefit payments to qualified employees.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes tap fees as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments--Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables--In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items--Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets--Revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of Erie Township's water and sewer lines.

Capital Assets--Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Improvements Other than Buildings	20 years
Machinery and Equipment	3 to 15 years
Water and Sewer Lines	30 to 60 years

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Vacation and Sick Leave)--It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations--In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications--Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Use of Estimates -- Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NOTE 2--RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds and net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$1,474,275 are as follows:

Bonds payable	\$ 1,439,773
Accrued interest payable	23,007
Compensated absences	<u>11,495</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u><u>\$ 1,474,275</u></u>

NOTE 2--RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures; in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense". The details of this \$97,177 are as follows:

Capital outlay	\$	315,758
Depreciation		<u>(218,581)</u>
	\$	<u>97,177</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$7,462 are as follows:

Compensated absences	\$	(3,389)
Accrued interest		<u>10,851</u>
	\$	<u>7,462</u>

NOTE 3--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information--Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end. On or before the 1st day of April the Supervisor shall prepare and submit to the Township Board a recommended budget within the tax limit and other revenue sources of the Township covering the next fiscal year. A public hearing on the budget shall be held before its final adoption. On or before the end of the fiscal year, the Township Board shall adopt a budget for the ensuing fiscal year. The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level. (i.e., The level at which expenditures may not legally exceed appropriations). The Supervisor is authorized to transfer budgeted amounts between line-items within an activity category; however, any revisions that alter the total expenditures of any activity must be approved by the Township Board.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds--During the year, Erie Township incurred expenditures in budgeted activities which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Actual Expenditure</u>	<u>Budget Appropriation</u>
General Fund--Legal	\$ 12,405	\$ 10,430

Fund Deficits--The Local Governmental Unit has no accumulated fund balance/retained earning deficits.

NOTE 4--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Erie Township's Board has designated two banks for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

Erie Township's deposits and investment policy are in accordance with statutory authority.

At year-end, Erie Township's deposits and investments were reported in the basic financial statements in the following categories:

	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Fiduciary Funds</i>	<i>Total</i>
Cash and Cash Equivalents	\$ 1,828,681	\$ 837,811	\$ 5,905	\$ 2,672,397
Restricted Cash	762,397	801,463	-	1,563,860
Total	<u>\$ 2,591,078</u>	<u>\$ 1,639,274</u>	<u>\$ 5,905</u>	<u>\$ 4,236,257</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 4,236,057
Petty Cash and Cash on Hand	200
Total	<u>\$ 4,236,257</u>

The bank balance of the primary government's deposits is \$4,288,786, of which \$300,000 is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Local Governmental Unit or its agent in the government's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Local Governmental Unit's name.

NOTE 4--DEPOSITS AND INVESTMENTS (Continued)

At year-end, the government's investment balances were categorized as follows:

	<i>Category</i>			<i>Reported Amount</i>
	<u>1</u>	<u>2</u>	<u>3</u>	<i>(Fair Value)</i>
Primary Government	\$ -	\$ -	\$ -	\$ -
Investments Not Subject to Categorization				
Mutual Funds				194,780
Total Primary Government				<u>\$ 194,780</u>

NOTE 5--RECEIVABLES

Receivables as of year-end for the government's individual major and nonmajor funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<i>Public and Private Improvement</i>	<i>Water and sewer</i>	<i>Total</i>
Accounts	\$ -	\$ 19,216	\$ 19,216
Special Assessments	5,140	2,183,605	2,188,745
Loans	83,766	-	83,766
Tap-Ins	-	74,559	74,559
Gross Receivables	<u>88,906</u>	<u>2,277,380</u>	<u>2,366,286</u>
Less: Allowance for Uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net Receivables	<u>\$ 88,906</u>	<u>\$ 2,277,380</u>	<u>\$ 2,366,286</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<i>Unavailable</i>
Loans and Grants	\$ 83,766
Special Assessments	<u>5,140</u>
Total	<u>\$ 88,906</u>

NOTE 6--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 124,685	\$ -	\$ -	\$ 124,685
Construction in Progress	-	228,834	-	228,834
	<u>124,685</u>	<u>228,834</u>	<u>-</u>	<u>353,519</u>
Capital Assets Being Depreciated:				
Buildings	1,974,212	12,754	-	1,986,966
Improvements Other Than Buildings	158,654	11,100	-	169,754
Machinery and Equipment	<u>2,167,414</u>	<u>63,070</u>	<u>(21,935)</u>	<u>2,208,549</u>
Subtotal	<u>4,300,280</u>	<u>86,924</u>	<u>(21,935)</u>	<u>4,365,269</u>
Less Accumulated Depreciation for:				
Buildings	466,320	49,674	-	515,994
Improvements Other Than Buildings	99,954	8,487	-	108,441
Machinery and Equipment	<u>698,287</u>	<u>160,420</u>	<u>(21,935)</u>	<u>836,772</u>
Subtotal	<u>1,264,561</u>	<u>218,581</u>	<u>(21,935)</u>	<u>1,461,207</u>
Net Capital Assets Being Depreciated	<u>3,035,719</u>	<u>(131,657)</u>	<u>-</u>	<u>2,904,062</u>
Governmental Activities Capital Total Capital Assets--Net of Depreciation	<u>\$ 3,160,404</u>	<u>\$ 97,177</u>	<u>\$ -</u>	<u>\$ 3,257,581</u>
<u>Business-Type Activities</u>				
Capital Assets Being Depreciated:				
Lines and Connections	\$ 5,507,078	\$ 153,097	\$ -	\$ 5,660,175
Less Accumulated Depreciation for:				
Lines and Connections	<u>727,340</u>	<u>181,143</u>	<u>-</u>	<u>908,483</u>
Net Capital Assets Being Depreciated	<u>4,779,738</u>	<u>(28,046)</u>	<u>-</u>	<u>4,751,692</u>
Business-Type Activities Capital Total Capital Assets--Net of Depreciation	<u>\$ 4,779,738</u>	<u>\$ (28,046)</u>	<u>\$ -</u>	<u>\$ 4,751,692</u>

Depreciation expense was charged to programs of the primary government as follows:

<u>Governmental Activities</u>	
General Government	\$ 38,614
Public Safety	166,343
Recreation and Culture	<u>13,624</u>
Total Governmental Activities	<u>\$ 218,581</u>
<u>Business-Type Activities</u>	
Water and Sewer	<u>\$ 181,143</u>

NOTE 7--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Law Enforcement	\$ 41,668
	Public and Private Improvement	14
Building	General	1,751
Water - Sewer	Public and Private Improvement	10,463
Total		<u>\$ 53,896</u>

Interfund Transfers

	<u>Transfers In</u>			<u>Total</u>
	<u>Law Enforcement</u>	<u>General</u>	<u>Non-Major Governmental Funds</u>	
<u>Transfers Out</u>				
	\$	\$	\$	\$ -
Public and Private Improvement	<u>150,000</u>	<u>-</u>	<u>12,000</u>	<u>162,000</u>

NOTE 8--LEASES

Erie Township had no lease obligations at June 30, 2006.

NOTE 9--LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

NOTE 9--LONG-TERM DEBT (Continued)

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:						
County Contractual Obligations:						
Road Bonds - 2005	4.50%	2017-18	\$ 1,032,900	\$ -	\$ 1,032,900	\$ 46,950
Installment Purchase Agreements:						
Fire Vehicles	5.50%	2009-10	495,531	(88,658)	406,873	93,602
Total Governmental Activities			<u>\$ 1,528,431</u>	<u>\$ (88,658)</u>	<u>\$ 1,439,773</u>	<u>\$ 140,552</u>
Business-Type Activities:						
County Contractual Obligations:						
2001 Township Water Line	5.0-5.5%	2014-15	\$ 1,700,000	\$ (155,000)	\$ 1,545,000	\$ 155,000
2002 Township Water Line	3.5-4.7%	2016-17	1,380,000	(105,000)	1,275,000	105,000
2006 Township Water Line	4.2-4.55%	2020-21	-	815,000	815,000	35,000
Total Business-Type Activities			<u>\$ 3,080,000</u>	<u>\$ 555,000</u>	<u>\$ 3,635,000</u>	<u>\$ 295,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 140,552	\$ 57,761	\$ 295,000	\$ 163,369
2007	169,247	50,780	310,000	152,922
2008	174,725	43,189	320,000	138,765
2009	180,574	35,140	320,000	123,936
2010	93,900	26,328	335,000	108,936
2011 and after	680,775	91,208	2,055,000	350,342
Total	<u>\$ 1,439,773</u>	<u>\$ 304,406</u>	<u>\$ 3,635,000</u>	<u>\$ 1,038,270</u>

NOTE 10--RESTRICTED ASSETS

The balances of the restricted asset accounts in the governmental funds are as follows:

Road Improvements	<u>\$ 762,397</u>
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The balances of the restricted asset accounts in the enterprise funds are as follows:

Debt Retirement	1,051
Construction	800,412
	<u>\$ 801,463</u>

NOTE 11--RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township purchases commercial insurance for all of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from the prior year.

NOTE 11--RISK MANAGEMENT (Continued)

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

NOTE 12--OTHER POST-EMPLOYMENT BENEFITS

The Township does not have a plan set up for post-employment benefits other than a pension plan.

NOTE 13--EMPLOYEE RETIREMENT PLAN

Defined Contribution Pension Plan

The Township provides pension benefits for all of its permanent employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus any investment earnings. The plan was established and may be amended by the Township Board.

Erie Township contributes eleven percent of base wages for each employee with the employee having an optional contribution of up to ten percent. An employee is fully vested after twenty-one months of service. An insurance company (Manulife Financial) administers the plan and the Township makes monthly contributions. The Township's total payroll for this year was \$565,889. The Township made the required contribution of \$42,699, on covered payroll of \$388,172. Employee contributions totaled \$19,334.

All full time employees participate in the plan.

Note 14 -- Pending Litigation

At present, there are no cases of litigation pending that would have a material effect on the financial statements.

NOTE 15--DEFERRED COMPENSATION PLAN

The Erie Township Board offers all Erie Township employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in Erie Township's financial statements.

Note 16 -- Monroe County Joint Powers Water Contracts (South County Water System)

Erie Township, in conjunction with three other communities, has entered into a contract with the Monroe County Drain Commission to provide a water supply and water mains for each of the communities. This is considered a joint venture without an equity interest.

Each community's liability is computed annually using assessed property valuation as a basis. Therefore, Erie Township's liability under this contract is presently undeterminable but, at this time, is estimated to be approximately 12.32% of the contract amount. The South County Water System currently makes all payments of principal and interest on these contracts, but the units of government will still be liable for principal should South County Water System not be able to meet the obligation.

Note 16 -- Monroe County Joint Powers Water Contracts (South County Water System) (Continued)

Summary financial information as of, and for the fiscal year ended December 31, 2005 is as follows:

	<u>South County Water System</u>
Cash and Investments	\$ 10,666,547
Other Assets	<u>20,361,237</u>
Total Assets	<u>31,027,784</u>
 Total Liabilities	 <u>5,309,609</u>
 Total Net Assets	 <u><u>\$ 25,718,175</u></u>
 Total Revenue	 \$ 4,652,354
Total Expenses	<u>3,139,623</u>
Net Change in Net Assets	<u><u>\$ 1,512,731</u></u>
 Current Portion of Long-Term Debt	 \$ 100,000
Long-Term Debt, Less Current Portion	<u>4,257,550</u>
Total Debt	<u><u>\$ 4,357,550</u></u>

Complete financial statements for this joint entity are in the 2005 Financial Statements of the Monroe County Drain Commission County Agency.

Required Supplementary Information

ERIE TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with</i>
	<i>Original</i>	<i>Final</i>	<i>Amounts</i>	<i>Final Budget -</i>
				<i>Positive</i>
				<i>(Negative)</i>
Beginning Fund Balance	\$ 70,000	\$ 106,599	\$ 254,850	\$ 148,251
Resources (Inflows)				
Taxes	98,100	98,100	100,870	2,770
Licenses and Permits	108,000	108,000	113,819	5,819
Federal Grants	-	-	1,176	1,176
State Grants	344,000	344,000	339,777	(4,223)
Charges for Services	61,000	61,000	45,635	(15,365)
Fines & Forfeits	500	500	3,132	2,632
Interest	2,000	2,000	4,084	2,084
Other	21,350	21,350	29,058	7,708
Transfers from Other Funds	150,000	150,000	-	(150,000)
Total Resources (Inflows)	784,950	784,950	637,551	(147,399)
Amounts Available for Appropriation	854,950	891,549	892,401	852
Charges to Appropriations (Outflows)				
General Government:				
Township Board	20,250	21,368	21,365	3
Supervisor	44,418	43,300	42,270	1,030
Elections	10,020	10,020	5,207	4,813
Audit	11,000	23,973	23,972	1
Assessing	58,400	57,970	43,271	14,699
Legal	10,000	10,430	12,405	(1,975)
Clerk	47,135	47,135	41,113	6,022
Board of Review	2,100	2,100	904	1,196
Treasurer	49,895	49,895	45,867	4,028
Building and Grounds	105,740	110,240	105,836	4,404
Cemeteries	8,605	8,605	7,310	1,295
Planning Commission	7,375	7,549	7,545	4
Board of Zoning Appeals	1,650	1,650	971	679
Storm Water Management	4,530	4,530	1,899	2,631
Other - Unclassified	172,787	145,176	124,210	20,966
Total General Government	553,905	543,941	484,145	59,796
Public Safety:				
Fire Department - Morin Pointe	69,800	70,388	64,746	5,642
Fire Department - Erie	66,700	112,675	99,447	13,228
Total Public Safety	136,500	183,063	164,193	18,870
Highways and Streets				
Maintenance	121,000	121,000	26,836	94,164
Culture and Recreation				
Recreation Commission	41,225	41,225	37,935	3,290
Library	2,320	2,320	751	1,569
Total Culture and Recreation	43,545	43,545	38,686	4,859
Transfers to Other Funds	-	-	-	-
Total Charges to Appropriations	854,950	891,549	713,860	177,689
Budgetary Fund Balance -- June 30, 2006	\$ -	\$ -	\$ 178,541	\$ 178,541

ERIE TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
LAW ENFORCEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with</i>
	<i>Original</i>	<i>Final</i>	<i>Amounts</i>	<i>Final Budget -</i>
				<i>Positive</i>
				<i>(Negative)</i>
Beginning Fund Balance	\$ 40,000	\$ 100,295	\$ 48,844	\$ (51,451)
Resources (Inflows)				
Taxes	112,000	112,000	113,746	1,746
Federal Grants	-	-	1,286	1,286
Licenses and Fees	5,200	5,200	5,060	(140)
Fines and Forfeits	174,750	174,750	141,470	(33,280)
Interest	1,000	1,000	1,908	908
Other	8,000	8,000	27,586	19,586
Transfers from Other Funds	150,000	150,000	150,000	-
Total Resources (Inflows)	<u>450,950</u>	<u>450,950</u>	<u>441,056</u>	<u>(9,894)</u>
Amounts Available for Appropriation	<u>490,950</u>	<u>551,245</u>	<u>489,900</u>	<u>(61,345)</u>
Charges to Appropriations (Outflows)				
Public Safety:				
Wages			290,895	
Benefits			86,141	
Supplies			34,834	
Training			784	
Legal			19,250	
Other			39,759	
Capital			12,461	
Total Charges to Appropriations	<u>490,950</u>	<u>551,245</u>	<u>484,124</u>	<u>67,121</u>
Budgetary Fund Balance -- June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,776</u>	<u>\$ 5,776</u>

ERIE TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
PUBLIC AND PRIVATE IMPROVEMENT FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Variance with</i>
	<i>Original</i>	<i>Final</i>	<i>Amounts</i>	<i>Final Budget -</i>
				<i>Positive</i>
				<i>(Negative)</i>
Beginning Fund Balance	<u>\$ 858,045</u>	<u>\$ 1,303,117</u>	<u>\$ 2,330,907</u>	<u>\$ 1,027,790</u>
Resources (Inflows)				
Licenses and Permits	500,000	500,000	578,577	78,577
Interest	25,383	25,383	73,175	47,792
Bond Proceeds	-	-	-	-
Other	8,350	9,150	9,840	690
Total Resources (Inflows)	<u>533,733</u>	<u>534,533</u>	<u>661,592</u>	<u>127,059</u>
Amounts Available for Appropriation	<u>1,391,778</u>	<u>1,837,650</u>	<u>2,992,499</u>	<u>1,154,849</u>
Charges to Appropriations (Outflows)				
General Government:				
Community Development	20,000	20,000	13,576	6,424
Other - Unclassified	886,228	1,327,410	743	1,326,667
Capital	46,000	49,000	16,154	32,846
Total General Government	<u>952,228</u>	<u>1,396,410</u>	<u>30,473</u>	<u>1,365,937</u>
Highways and Streets				
Maintenance	<u>115,700</u>	<u>117,040</u>	<u>391,565</u>	<u>(274,525)</u>
Debt Service				
Principal	-	-	-	-
Interest and Fees	24,200	24,200	23,851	349
	<u>24,200</u>	<u>24,200</u>	<u>23,851</u>	<u>349</u>
Transfers to Other Funds	<u>300,000</u>	<u>300,000</u>	<u>162,000</u>	<u>138,000</u>
Total Charges to Appropriations	<u>1,392,128</u>	<u>1,837,650</u>	<u>607,889</u>	<u>1,229,761</u>
Budgetary Fund Balance -- June 30, 2006	<u>\$ (350)</u>	<u>\$ -</u>	<u>\$ 2,384,610</u>	<u>\$ 2,384,610</u>

Additional Information

ERIE TOWNSHIP
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Building Inspection</u>	<u>Fire Equipment</u>	
<i>Assets</i>			
Cash and Cash Equivalents	\$ 9,343	\$ 99,406	\$ 108,749
Investments	-		-
Due From Other Funds	<u>1,751</u>	<u>-</u>	<u>1,751</u>
Total Assets	<u>\$ 11,094</u>	<u>\$ 99,406</u>	<u>\$ 110,500</u>
<i>Liabilities and Fund Balance</i>			
Liabilities:			
Accounts Payable	\$ 499	\$ -	\$ 499
Total Liabilities	<u>499</u>	<u>-</u>	<u>499</u>
Fund Balance:			
Unreserved	<u>10,595</u>	<u>99,406</u>	<u>110,001</u>
Total Liabilities and Fund Balance	<u>\$ 11,094</u>	<u>\$ 99,406</u>	<u>\$ 110,500</u>

ERIE TOWNSHIP

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Building Inspection</u>	<u>Fire Equipment</u>	
Revenues:			
Taxes & Penalties	\$ -	\$ 142,203	\$ 142,203
Licenses & Permits	44,540	-	44,540
Interest	-	2,758	2,758
	<hr/>	<hr/>	<hr/>
Total Revenue	44,540	144,961	189,501
	<hr/>	<hr/>	<hr/>
Expenditures:			
Current			
Public Safety	59,068	-	59,068
Debt Service:			
Principal	-	88,658	88,658
Interest and Fiscal Charges	-	27,569	27,569
	<hr/>	<hr/>	<hr/>
Total Expenditures	59,068	116,227	175,295
	<hr/>	<hr/>	<hr/>
Excess of Revenue Over (Under) Expenditures	(14,528)	28,734	14,206
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses):			
Operating Transfers In	12,000	-	12,000
Operating Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<hr/> 12,000	<hr/> -	<hr/> 12,000
	<hr/>	<hr/>	<hr/>
Excess of Revenue & Other Sources Over (Under) Expenditures & Other Uses	(2,528)	28,734	26,206
	<hr/>	<hr/>	<hr/>
Fund Balance - Beginning	13,123	70,672	83,795
	<hr/>	<hr/>	<hr/>
Fund Balance - Ending	<u>\$ 10,595</u>	<u>\$ 99,406</u>	<u>\$ 110,001</u>